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SCBA

Small Cable Business Association
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May 18, 1994

Ms. Rachelle Chong
Commissioner
Federal Communications Commission
1919 M Street NW
Washington D.C. 20554

Dear Commissioner Chong:

The FCC is now making an effort to gather information about the impact of its latest cable rate regulations on small systems and small companies. Attached is a report from the vice president of U.S. Bank who participated in a recent conference call with other bankers and members of the Commission's staff.

It is worth noting the three major points of the consensus view of the lenders in that conference call. In addition, the discussion about the "intense scrutiny" by the Office of the Comptroller of the Currency is significant. It shows the belief of those lenders that they are now caught in a squeeze between two sets of regulations, those of the FCC and those of the OCC. On one hand, the staff of the FCC is suggesting lenders should be more flexible, while on the other hand, the examiners from the OCC are scrutinizing these loans ever more harshly.

This report is added evidence that the FCC's rate regulations are an unjust burden on the operators of small systems. It underscores the urgency of dealing with the problem before more of the foreclosures predicted by these bankers occur.

Sincerely,

David D. Kinley

David D. Kinley
Chair

U.S. BANK

U.S. Bank of Washington, National Association
Post Office Box 720
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To: Dave Kinley

From: Dave Westburg, Vice President, Corporate Banking

Date: May 9, 1994

Re: Reregulation and Small Cable Operators

Today Westburg participated in a conference call to discuss the financial impact of reregulation on small cable operators. The following individuals participated in the call: Jay Dugan (CEA), Maury Halfon (Philips Credit), Lynne Randall (Fleet Bank), Pat Thompson (Daniels), Chris Needham (State Street Bank), Andrea Williams (Attorney - FCC), Maureen O'Connell (Legal Advisor, Commissioner Quello), Lisa Smith (Legal Advisor, Commissioner Barrett), Pat Donovan (Acting Chief, Policy and Rules Division, Cable Services Bureau), Bill Johnson (Deputy Chief, Cable Services Bureau) and Susan Cosentino (Attorney - FCC). The call was initiated by the FCC to receive input from lenders to small cable companies.

The consensus view of the bankers and brokers was as follows:

1. Reregulation will dramatically impact debt capacity because of financial leverage. A $1 drop in cashflow means a $5 drop in debt capacity. The impact is especially severe for rural operators who have limited opportunities for unregulated revenue. The result will be fewer channels and fewer ancillary services.

2. Reregulation will increase the number of financially distressed borrowers. A few operators will go bankrupt, but many more will be forced to sell to the larger operators who were the impetus for reregulation in the first place.

3. The current state of uncertainty has put a halt to new financings and system sales. Even systems whose communities do not certify are impacted by the benchmarks due to the threat that rate rollbacks may be required if a subscriber happens to complain in the future.

Questions raised by the FCC staff including the following: (1) How much of the existing debt of small operators was incurred for acquisitions as opposed to newbuild or rebuild activity? The bankers responded that most debt had been incurred for newbuilds. (2) Why can't the financial community give hard pressed cable companies some flexibility with respect to debt payments? The bankers responded that cable loans have long been the subject of intense scrutiny by the examiners of the Office of the Comptroller of the Currency. The Comptroller's Office has been asking about the impact of reregulation on the finances of cable clients in recent exams.

Conclusion: The FCC staff seemed concerned about the problems of small cable companies, but focused primarily on whether the rules would cause small operators to go bankrupt or turn off their systems. I'm not sure they understand how the proposed rules will restrict the quality of cable services. In addition, I'm not sure the staff understands how the scrutiny of federal banking regulators will limit the ability of banks to be flexible with borrowers facing cashflow shortfalls.